U.S. Department of the Treasury

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Importance of Financial Education
Association for Financial Counseling and Planning Education
Military Pre-Conference
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Importance of Financial Education

- Big Picture
- 10 Key Issues
- Federal Resources
- 5 Essential Points for our Troops…

Big Picture

Situation

- Choices
  - The market place is increasing the number of choices
- Knowledge
  - Needs to catch up

Our Choices Have Outpaced Our Knowledge

Big Picture

General Population Facts

- Subprime mortgages with adjustable rates, which currently accounts for about two-thirds of subprime mortgages, has reached an 11% rate of serious delinquencies.[1]
- Over the course of your lifetime you will save about a quarter of a million dollars in interest if you have good credit versus bad credit.[2]
- Thirty-three percent of Americans did not know that potential employers could use credit reports when making hiring decisions.[3]
- Sixty percent of Americans are behind in saving for retirement.[4]

[1] Mortgage Bankers Association Quarterly Survey, 2006
[2] Andrea Coombes, "Improving credit can save," CBS MarketWatch, January 13, 2004
[3] Credit Reporting Literacy: consumers Understood the Basics but Could Benefit from Targeted Educational Efforts, U.S. Government Accountability Office, March 2005
[4] Prudential Retirement Survey, "JP Morgan Unit takes steps to boost 401k participation", American Banker, by Steve Garmhausen, June 6, 2005

Big Picture

Military Personnel Facts

- 97 percent of survey respondents said that it was important to them that they become more knowledgeable about saving and investing.[5]

- Only 29 percent of military personnel who currently invest received a passing grade on a basic financial literacy quiz.[6]

- According to a 2006 DOD report, predatory lending practices are prevalent and target military personnel, either through proximity and prevalence around military installations, or through the use of affinity marketing techniques, particularly on-line.[7]

[5] Financial Industry Regulatory Authority (FINRA) Formerly - NASD Investor Education Foundation - 2005
[6] Financial Industry Regulatory Authority (FINRA) Formerly - NASD Investor Education Foundation - 2005
[7]Report On Predatory Lending Directed at Members of and Their Dependents, United States Department of Defense, 08/09/06

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Ten Key Issues

General Saving

Statistic

- In 2005 the US Personal Savings Rate was -0.5% [8]

Cause

- People receive many more messages to consume than to save.

[8]Department of Commerce, Bureau of Economic Analysis, 2005

Ten Key Issues

Homeownership

Statistic

- Since July of 2006 foreclosures have risen sharply in the United States [9]

Cause

- Homeownership is a complex process. With homeownership education comes knowledge which allows people to understand the types of mortgages they are signing.

[9] RealtyTrac, Survey, July 2007

Three Facts about Foreclosures

1. Many foreclosures are avoidable

2. Lenders want you to keep your home

3. Certified homeownership counselors are here to help you

Five Steps to Avoid Foreclosure

1. Prioritize your spending
2. Know your rights under the terms of the mortgage
3. Understand foreclosure prevention options
4. Don’t ignore the problem - Contact your lender as soon as you realize that you have a problem
5. Contact a HUD approved non-profit housing counselor at 1-888-995-HOPE

Ten Key Issues

Retirement Saving

Statistic

- Only 31% of eligible employees aged 18-25 participate in their employers' defined contribution plan at work. [10]

Cause

- Many young people do not see the advantage of saving for retirement.

[10]Hewitt Associates study qtd. in Michelle Singletary, "A Good Place to Start," *The Washington Post*

Ten Key Issues

Credit

Statistic

- Consumers with good credit ratings pay $250,000 less in interest payments over the course of their work life than people with bad credit [11]

Cause

- Consumers do not adequately understand the importance of having good credit. Bad credit raises the cost of borrowing. It can also prevent people from getting a car loan, renting an apartment and even getting hired for a job.

[11] Andrea Coombes, "Improving credit can save," CBS MarketWatch, January 13, 2004

Three Lessons Learned (and Misapplied)

1. Student debt is ok because college/trade school pays for itself

   -All debt is ok regardless of type, terms or amount

2. The future is bright

   -I'll be rich and have no expenses

3. Hard work is good

   -I can always earn my way out of over-consumption

Ten Key Issues

Consumer Protection

Statistic

- Nearly 10 million people in the United States are victims of identity theft each year [12]

Cause

- There are a large number of circumstances when fraud can occur. One of the best forms of consumer protection is consumer knowledge.

[12] FTC, Consumer Fraud in the United States, 2004

Consumer Protection & The Hawkins Paradox

- Child lost
- The entire community responds (friends and strangers alike)
- Did someone say *strangers*?? Quick hide!!
- Challenge: distinguishing between the rescuer & the abductor
- Paradox: those trying to *help* might be confused with those trying to *harm*

Ten Key Issues

Investor Protection

Statistic

- 40% of investors say they know what they need to know to make good decisions while investing. [13]

Cause

- Many people do not avail themselves of free, unbiased investor education information which can help them understand market fluctuations, avoid fraud and manage investment fees.

[13] SIA, Annual SIA Investor Survey, 2004

Ten Key Issues

Taxpayer rights

Statistic

- The IRS estimates that nearly 25% of people who qualify for a tax credit don't claim the credit [14]

Cause

- Some people are not aware of benefits offered by the federal government, or do not understand them, and therefore do not access these benefits.

[14] IRS, http://www.irs.gov/newsroom/article/0,,id=106429,00.html, 2005

Ten Key Issues

The Unbanked

Statistic

- Nearly 10% of US households do not have a transaction account with a depository institution. [15]

Cause

- Lack of trust in financial institutions, lack of knowledge about the financial system and cultural differences can all cause consumers to use financial service providers that may charge higher fees.

[15] Braunstein, S & Welch, Financial Literacy: An Overview of Practice, 2002

Ten Key Issues

Multicultural Populations

Statistic

- Minority populations tend to have lower rates of homeownership and lower rates of usage of mainstream financial services. [16]

Cause

- Cultural and language barriers can present special challenges to some consumers.

[16]US Census Bureau, 2005

Ten Key Issues

K-Postsecondary Financial Education

Statistic

- A 2006 financial literacy test given to high school seniors revealed that the average score was a 52.4%. [17]

Cause

- Not enough parents/guardians or schools teach financial literacy topics to young people, requiring them to learn financial lessons through trial and error instead.

[17] Jump$tart Survey, 2007

Integration into Established Curricula

- Mathematics/Percentages→ Compounding of Interest
- Social Studies/Great Depression→ Social Security System
- Family and Consumer Science/Paychecks & Take-Home Pay→ Taxes
- Elementary School/History→ Coins
- Primary School/Math→ Savings & Interest

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Federal Resources

1. Central Website and Hotline

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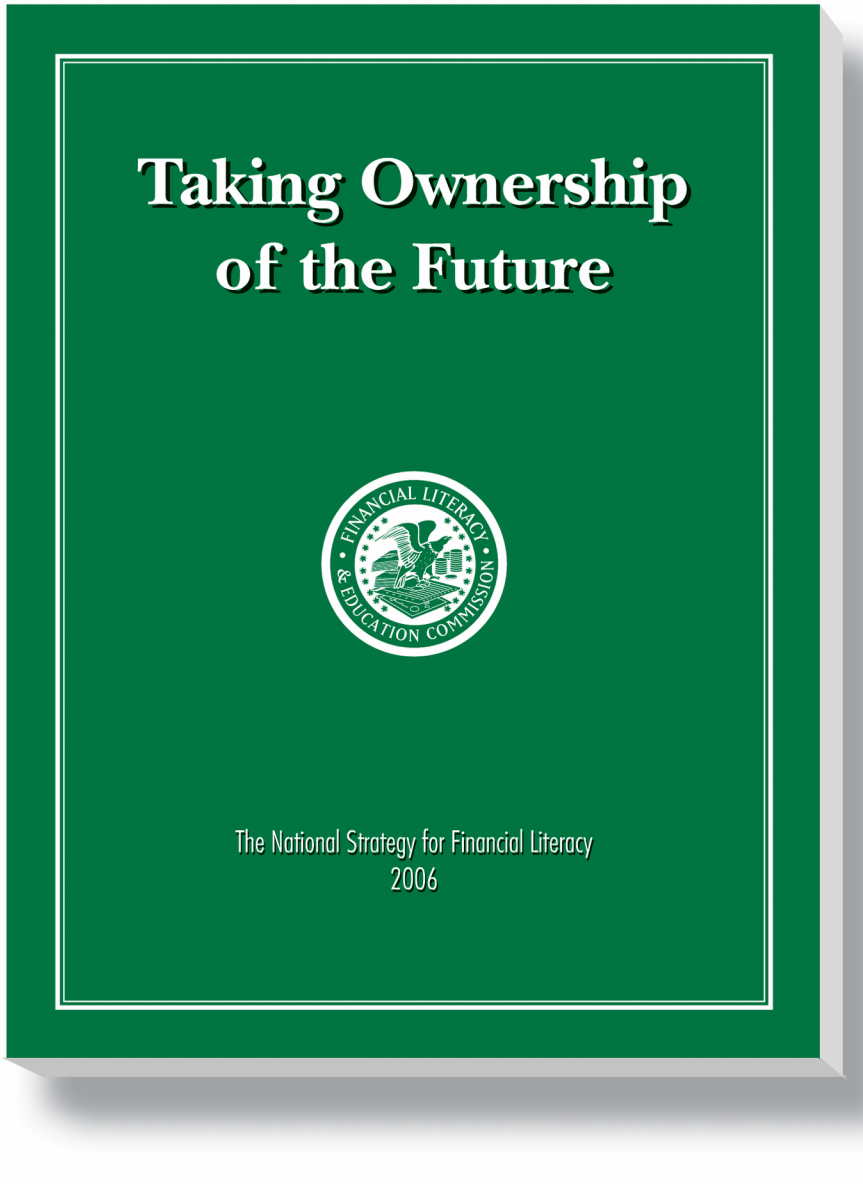
mymoney
.gov

Federal Resources

1. Central Website and Hotline

2. The National Strategy for Financial Literacy: Taking Ownership of the Future


Taking Ownership
of the Future
FINANCIAL LITERACY
& EDUCATION COMMISSION
The National Strategy for Financial Literacy
2006

Federal Resources

1. Central Website and Hotline
2. The National Strategy for Financial Literacy: Taking Ownership of the Future
3. Technical Assistance Center

Technical Assistance Center

- OFE@do.treas.gov
- (202) 622-9372

Federal Resources

1. Central Website and Hotline
2. The National Strategy for Financial Literacy: Taking Ownership of the Future
3. Technical Assistance Center
4. *Eight Elements of a Succesful Financial Education Program (for program providers)*

Department of Treasury
Office of Financial Education
Technical Assistance Center

Please Contact Us With Questions About Personal Finance Matters or Financial Education Programs

www.treasury.gov/financialeducation *or* (202) 622-9372

Eight Elements of A Successful Financial Education Program

Content

1. focuses on ***basic savings, credit management, home ownership*** and /or ***retirement planning***.
2. is ***tailored to its target audience,*** taking into account its language, culture, age and experience.

Delivery

3. is offered through a ***local distribution channel*** that makes effective use of community resources and contacts.
4. ***follows up with participants*** to reinforce the message and ensure that participants are able to apply the skills taught.

Impact

5. ***establishes specific program goals*** and uses performance measures to track progress toward meeting those goals.
6. ***demonstrates a positive impact on participants' attitudes, knowledge or behavior*** through testing, surveys or other objective evaluation.

Sustainability

7. ***can be easily replicated*** on a local, regional or national basis so as to have broad impact and sustainability.
8. is ***built to last*** as evidenced by factors such as continuing financial support, legislative backing or integration into an established course of instruction.

Federal Resources

1. Central Website and Hotline
2. The National Strategy for Financial Literacy: Taking Ownership of the Future
3. Technical Assistance Center
4. *Eight Elements of a Succesful Financial Education Program (for program providers)*
5. *Ten Checkpoints on the Road to Financial Stabillity (for consumers)*

TIPS FOR BUILDING WEALTH

Pay yourself first by making saving a priority over optional spending.

Track all your expenses for a full month, separate needs from wants and create a budget based on what you find factoring in savings. Stick to that budget.

Set specific but achievable long-term savings goals for major purchases like a home, education, retirement and healthcare expenses.

Benefit from the power of compound interest by saving as much as you can as early as you can in your career, particularly through employer-based retirement programs which may include an employer match.

Benefit from tax advantages which allow you to build savings tax free for specific purposes like retirement, education and healthcare.

TIPS FOR MANAGING CREDIT

Build savings to avoid having to use high-interest sources of credit and to provide a cushion for emergencies.

Pay bills on time to help maintain a good credit score, since your credit score can impact your ability to obtain credit, employment, insurance and housing.

Pay more than the minimum payment to reduce or avoid finance charges, whenever possible.

Comparison shop for new credit, but obtain only the credit you need. Negotiate with existing creditors for the best available deal.

Get a free credit report at least once a year to help manage your credit and to look for instances of identity theft. (www.annualcreditreport.com).

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5 Essential Points for our Troops…

1. Enroll in your Thrift Savings Plan or an employer's 401 (k) plan and take full advantage of any employer match offered
2. Be vigilant for frauds and scams
3. Shop around
4. Protect your credit score
5. Seek quality, non-biased information about managing money

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